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ABSTRACT

This report presents the results of the Pamlico Community College financial statement audit for the fiscal year ending on June 30, 1998. Pamlico Community College is a component of the State of North Carolina, thus the authority to audit is granted by Article 5A of G.S. 147. The accounts and operations of the institution were subject to audit procedures considered necessary to complete the audit work necessary for North Carolina's Comprehensive Annual Financial report (CAFR). In addition, auditing procedures considered necessary to report on the financial statements relating solely to Pamlico Community College were also performed. The objectives of the audit were to express an opinion on the financial statements; to present instances of noncompliance (if any) with laws, regulations, contracts or grants; and to present significant deficiencies (if any) in internal control over financial reporting. The tests found the financial statements to present the amounts and disclosures made in accordance with generally accepted accounting principles as described in the Independent Auditor's Report on the Financial Statements. The investigation also revealed that no instances of noncompliance or material weaknesses in internal control over financial reporting occurred which would require disclosure under the Government Auditing Standards. (SKF)

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ED 430 604

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STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 1998

JC 990270

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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FINANCIAL STATEMENT AUDIT REPORT OF

PAMLICO COMMUNITY COLLEGE

GRANTSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 1998

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AUDITOR'S TRANSMITTAL

The Honorable James B. Hunt, Jr., Governor
The General Assembly of North Carolina
Board of Trustees, Pamlico Community College

This report presents the results of our financial statement audit of Pamlico Community College, a component unit of the State of North Carolina, for the year ended June 30, 1998. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Pamlico Community College. The audit procedures were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

1. **Objective** - Express an opinion on the financial statements.

   Results - The financial statements present fairly the amounts and disclosures made in accordance with generally accepted accounting principles. These matters are described in the Independent Auditor's Report on the Financial Statements.

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

   Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements.

   Results - Our tests disclosed no material weaknesses in internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Ralph Campbell, Jr.
State Auditor

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STATE OF NORTH CAROLINA
Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have audited the accompanying Balance Sheet of Pamlico Community College, a component unit of the State of North Carolina, as of June 30, 1998, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pamlico Community College as of June 30, 1998, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

The required supplementary information on year 2000 issues listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because we could not evaluate the information using the criteria in Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures About Year 2000 Issues*, as amended. In addition, we do not provide assurance that the College is or will become year 2000 compliant, that the College's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the College

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 1999, except for the first paragraph, as to which the date is May 10, 1999, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Ralph Campbell, Jr.
State Auditor

January 4, 1999, except for Note 13
as to which the date is May 10, 1999

Pamlico Community College
Balance Sheet
June 30, 1998

Exhibit A

	Current Funds			Fiduciary Funds			Plant Funds	
	Unrestricted							
	General	Proprietary	Restricted	Loan	Endowment	Agency	Unexpended	Investment in Plant
ASSETS								
Cash and Cash Equivalents:								
Petty Cash and Change Funds	$ 10.00	$ 200.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Cash in Bank - Checking	11,758.37						282.29	
Cash with State Treasurer (Overdraft)	98,676.03	250,881.75	(7,446.12)	4,456.26	20,854.75	1,476.12		
Investments:								
Land	95,000.00							
Personal Property	13,620.00							
Securities Lending Collateral Investment Pool	63,137.85	160,526.69	2,875.74	2,851.34	13,343.91	944.50		
Receivables:								
Accounts Receivable (Net)	590.19	3,906.99	143.37					
Accrued Interest Receivable	554.14	1,406.20	135.21	24.98		5.54		
Due from State Agencies			9,338.75				833,976.02	
Due from Private Grantors			2,458.39					
Student Loans Receivable (Net)				408.30				
Inventories:								
Merchandise for Resale	41.40	12,145.22						
Supplies and Materials	7,691.38							
Gasoline and Fuel Oil	89.79							
Postage	2,595.36							
Fixed Assets:								
Land								12,500.00
Buildings								1,703,458.75
Other Structures and Improvements								9,347.94
Equipment								232,871.40
Motor Vehicles								15,173.58
Library Books								451,329.97
Construction in Progress								523,454.33
Total Assets	$ 293,764.51	$ 429,066.85	$ 7,505.34	$7,740.88	$ 34,198.66	$2,426.16	$ 834,258.31	$ 2,948,135.97

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Pamlico Community College
Balance Sheet
June 30, 1998

LIABILITIES AND FUND EQUITY	Current Funds			Fiduciary Funds			Plant Funds	
	Unrestricted							
	General	Proprietary	Restricted	Loan	Endowment	Agency	Unexpended	Investment in Plant
Liabilities:								
Accounts Payable	$ 1,446.80	$ 570.46	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Contracts Payable:								
Currently Due							60,024.35	
Accrued Payroll	32.30							
Due to Federal Agencies			0.60					
Due to State Agencies	70.00							
Accrued Vacation Leave	82,375.38							
Obligations Under Securities Lending Transactions	63,137.85	160,526.69	2,875.74	2,851.34	13,343.91	944.50		
Funds Held for Others	290.13					1,481.66		
Total Liabilities	147,352.46	161,097.15	2,876.34	2,851.34	13,343.91	2,426.16	60,024.35	0.00
Fund Equity:								
Investment in General Fixed Assets:								
State								1,344,439.78
County								466,645.14
Federal								1,036,000.00
Institutional								25,817.36
Donations								75,233.69
Fund Balances:								
Endowment					20,854.75			
Other Fund Balances:								
Restricted			4,629.00	4,889.54			774,233.96	
Unrestricted	146,412.05	267,969.70						
Total Fund Equity	146,412.05	267,969.70	4,629.00	4,889.54	20,854.75	0.00	774,233.96	2,948,135.97
Total Liabilities and Fund Equity	$ 293,764.51	$ 429,066.85	$ 7,505.34	$7,740.88	$ 34,198.66	$2,426.16	$ 834,258.31	$ 2,948,135.97

The accompanying notes to the financial statements are an integral part of this statement.

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Pamlico Community College
Statement of Changes in Fund Equity
Year Ended June 30, 1998

Exhibit B

	Current Funds			Fiduciary Funds		Plant Funds	
	Unrestricted						
	General	Proprietary	Restricted	Loan	Endowment	Unexpended	Investment in Plant
Revenues and Other Additions:							
Net Certification - Department of Community Colleges	$ 2,101,693.49	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 174,737.11	$ 0.00
County Appropriations	176,082.96					8,000.04	
Federal Grants and Contracts	1,261.96		208,743.38				
State Grants and Contracts			22,085.32			123,143.00	
Local Grants and Contracts			1,386.00				
Private Gifts, Grants and Contracts	15,804.00		19,181.93				
Investment Income	6,290.95	14,515.98	245.93	240.26			
Endowment Income			966.37				
Net Loss on Disposal of Property					(9,365.00)		
Securities Lending Income	3,488.43	8,049.33	136.36	133.23			
Student Fees	12,098.80	1,660.70					
Sales and Services	2,862.75	83,875.01					
Commissions Earned		1,964.48					
Expended for Plant Facilities							510,210.53
Other Sources		370.43	76.00				
Total Revenues and Other Additions	2,319,583.34	110,435.93	252,821.29	373.49	(9,365.00)	305,880.15	510,210.53
Expenditures and Other Deductions:							
Educational and General	2,294,660.26	5,115.13	250,097.10				
Indirect Costs Recovered			1,212.96				
Plant:							
Buildings						471,533.96	
Equipment						132,875.90	
Books						13,553.91	
Auxiliary Enterprises		64,589.37					
Internal Service Funds		5,144.17					
Disposal of Plant Facilities							432.38
Securities Lending Transaction Fees	3,488.43	8,049.33	136.36	133.23			
Other Expenditures and Deductions				33.08			
Total Expenditures and Other Deductions	2,298,148.69	82,898.00	251,446.42	166.31		617,963.77	432.38
Transfers:							
Non-Mandatory Transfers In (Out)	1,677.00	(1,677.00)					
Net Increase (Decrease) for the Year	23,111.65	25,860.93	1,374.87	207.18	(9,365.00)	(312,083.62)	509,778.15
Fund Equity July 1, 1997	123,300.40	242,108.77	3,254.13	4,682.36	30,219.75	1,086,317.58	2,438,357.82
Fund Equity June 30, 1998	$ 146,412.05	$ 267,969.70	$ 4,629.00	$ 4,889.54	$ 20,854.75	$ 774,233.96	$ 2,948,135.97

The accompanying notes to the financial statements are an integral part of this statement.

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Pamlico Community College
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 1998
(With Comparative Totals for 1997)

Exhibit C

	Unrestricted				Totals Year Ended June 30,	
	General	Proprietary	Total	Restricted	1998	1997
Revenues:						
Net Certification - Department of Community Colleges	$ 2,101,693.49	$ 0.00	$ 2,101,693.49	$ 0.00	$ 2,101,693.49	$ 1,989,331.29
County Appropriations	176,082.96		176,082.96		176,082.96	187,684.00
Federal Grants and Contracts	1,261.96		1,261.96	207,530.42	208,792.38	176,758.79
State Grants and Contracts				21,413.68	21,413.68	19,689.75
Local Grants and Contracts				1,386.00	1,386.00	1,386.00
Private Gifts, Grants and Contracts	15,804.00		15,804.00	18,802.47	34,606.47	15,668.52
Investment Income	6,290.95	14,515.98	20,806.93	245.93	21,052.86	18,642.07
Endowment Income				642.60	642.60	943.42
Securities Lending Income	3,488.43	8,049.33	11,537.76	136.36	11,674.12	8,907.40
Student Fees	12,098.80	1,660.70	13,759.50		13,759.50	16,918.06
Sales and Services	2,862.75	83,875.01	86,737.76		86,737.76	92,601.34
Commissions Earned		1,964.48	1,964.48		1,964.48	2,676.10
Other Sources		370.43	370.43	76.00	446.43	813.00
Total Revenues	2,319,583.34	110,435.93	2,430,019.27	250,233.46	2,680,252.73	2,532,019.74
Expenditures:						
Educational and General:						
Instruction	1,100,180.19		1,100,180.19	4,912.32	1,105,092.51	1,134,665.34
Learning Resources	151,770.49		151,770.49	9,482.12	161,252.61	111,411.31
Student Services	199,137.95	2,943.88	202,081.83	29,390.01	231,471.84	207,266.18
Plant Operation and Maintenance	141,232.05		141,232.05		141,232.05	130,863.83
Institutional Support	656,702.83		656,702.83	21,166.50	677,869.33	596,619.30
Student Financial Aid	45,636.75	2,171.25	47,808.00	185,146.15	232,954.15	211,292.33
Auxiliary Enterprises		64,589.37	64,589.37		64,589.37	69,378.88
Internal Service Funds		5,144.17	5,144.17		5,144.17	8,217.46
Securities Lending Transaction Fees	3,488.43	8,049.33	11,537.76	136.36	11,674.12	8,907.40
Total Expenditures	2,298,148.69	82,898.00	2,381,046.69	250,233.46	2,631,280.15	2,478,622.03
Transfers and Additions/(Deductions):						
Restricted Receipts Over Revenues Earned				1,374.87	1,374.87	580.99
Non-Mandatory Transfers In (Out)	1,677.00	(1,677.00)				(22,100.00)
Net Increase in Fund Equity	$ 23,111.65	$ 25,860.93	$ 48,972.58	$ 1,374.87	$ 50,347.45	$ 31,878.70

The accompanying notes to the financial statements are an integral part of this statement.

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. The accompanying financial statements present all funds for which the College's board of trustees is accountable. The Pamlico Community College Foundation, Inc. is governed by a 14 member board elected by the trustees of Pamlico Community College at their first meeting of each calendar year. Although legally separate, the Foundation is reported as if it were part of the College because its sole purpose is to benefit the students and educational programs of the College. The Foundation's financial statements have been blended with those of the College. Separate financial statements for the Foundation may be obtained from the College. Pamlico Community College is a component unit of the State of North Carolina and the financial statements of the College are an integral part of the State's *Comprehensive Annual Financial Report*.

B. **Basis of Presentation** - The accompanying financial statements are presented in accordance with generally accepted accounting principles guided by standards of the Financial Accounting Standards Board, except in circumstances where the Governmental Accounting Standards Board has issued a pronouncement applicable to public colleges and universities. The College also follows the fund accounting and reporting guidelines set forth by the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.

C. **Fund Structure** - The accompanying financial statements are structured into three categories of funds: Current, Fiduciary, and Plant Funds.

The **Current Funds** are used to account for all financial transactions of the general operations of the College, with the unrestricted and restricted funds shown separately. Also, the Proprietary Funds reflecting the operations of the student supply store, other auxiliary enterprises, internal service funds and student activity funds are shown separately from the other unrestricted funds.

The **Fiduciary Funds** are used to account for the Student Loan Funds, Endowment Funds, and Agency funds held by the College. The Agency Funds are those funds of students and organizations held by the College

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

as revenues or expenditures for the College; therefore, these funds are not custodian. The transactions of the Agency Funds do not result in any reflected in the statement of changes in fund equity.

The **Plant Funds** are used to account for the Unexpended Plant Funds and the Investment in Plant Fund.

D. **Basis of Accounting** - The accompanying financial statements were prepared in accordance with generally accepted accounting principles for colleges and universities. The generally accepted basis of accounting for colleges and universities is the accrual basis, except that no depreciation expense is reflected.

E. **Securities Lending Transactions** - These transactions occur when government entities loan their securities to broker-dealers and other entities (borrowers) in exchange for collateral and simultaneously agree to return the collateral for the securities in the future.

The College does not directly engage in securities lending transactions; however, it deposits certain funds with the State Treasurer's investment pools which do participate in securities lending activities. The Treasurer's Office allocates a prorata share back to the individual entities owning the funds. The College recognizes its portion of securities lending transactions that are held in the State Treasurer's "Securities Lending Collateral Investment Pool" as an asset and an equal liability amount as "Obligations Under Securities Lending Transactions." Similarly, the allocated portion of the income and costs arising from pooled securities lending transactions is reported as "Securities Lending Income" and "Securities Lending Transactions Fees."

F. **Receivables and Allowance for Doubtful Accounts** - The receivables are reflected in the accompanying financial statements net of the allowances for doubtful accounts.

G. **Inventories** - Inventories held by the College are priced at cost using the last invoice method. The inventories for the Current Unrestricted General Funds consist of expendable supplies held for consumption. Inventories for the Proprietary Funds consist of textbooks and other merchandise for resale.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. **Fixed Assets and Depreciation** - All fixed assets are reflected as expenditures of the fund when purchased in the year of acquisition. The fixed assets acquired are reflected as an addition to the Investment in Plant Fund and carried at the cost of acquisition until disposed of. No depreciation is reflected.

I. **Vacation and Sick Leave** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

The College has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

J. **Current Funds Revenues** - Current funds revenues, as reflected on Exhibit C, include (1) all unrestricted gifts, grants, and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include restricted current funds received but not expended or resources that are restricted by external persons or agencies to funds other than current funds.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. **Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with G.S. § 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, the carrying amount of cash on deposit was $380,939.45 and the bank balance was $429,681.52.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	$ 368,898.79	$ 365,923.09
Cash on Deposit with Private Financial Institutions	12,040.66	63,758.43
	$ 380,939.45	$ 429,681.52

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in the State Treasurer's Short-Term Investment Fund. These moneys are invested in accordance with G.S. § 147-69.1 and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

All of the cash on deposit with private financial institutions at June 30, 1998, was covered by federal depository insurance.

B. **Investments** - Based on the authority provided in G.S. 147-69.3(e), the State Treasurer lends securities from its investment pools to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year, the custodian lent U.S. government securities, corporate bonds, notes, and common stock for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONCLUDED)

The College's portion of securities lent at year-end for cash collateral amounted to $243,680.03 and is not subject to categorization of custodial credit risk. Securities received as collateral are not recorded in either the Treasurer's or the College's financial statements because the State Treasurer cannot pledge or sell the collateral securities unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral investments do not differ materially from the average maturity of the securities lent. While cash can be invested in securities ranging from overnight up to two years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At June 30, 1998, the weighted average maturity of unmatched investments was approximately one week.

At year-end, the State Treasurer has no credit risk exposure to borrowers and incurred no losses during the year ended June 30, 1998, related to these transactions. The securities custodian is contractually obligated to the Treasurer for certain conditions, including indemnity on a default by the borrowers to return securities and on a failure by the borrowers to maintain collateral with the securities custodian agent equal to 100% of the market value of the securities lent.

At June 30, 1998, the Pamlico Community College Foundation, Inc. held $108,620 in investments consisting of real estate ($95,000) and personal property ($13,620). These investments are not categorized as to risk.

NOTE 3 - RECEIVABLES

The gross receivables and related allowances for doubtful accounts at June 30, 1998, were:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Accounts Receivable:			
Students	$ 92.63	$ 22.63	$ 70.00
Customers	880.00	880.00	
Vendors	4,570.55		4,570.55
Total Accounts Receivable	$ 5,543.18	$ 902.63	$ 4,640.55
Student Loans Receivable:			
State Loans	$ 430.81	$ 430.81	$ 0.00
Institutional Loan Funds	1,842.37	1,434.07	408.30
Total Student Loans Receivable	$ 2,273.18	$ 1,864.88	$ 408.30

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NOTE 4 - INTERFUND BORROWING

Interfund borrowing of a temporary nature has occurred where one bank account is maintained for more than one fund. The number of funds with cash overdrafts and the total of the overdraft within each fund group at June 30, 1998, are as follows:

Fund Group	Number of Funds	Total Overdraft
Current Restricted	3	$ 11,940.51

Interfund borrowings of a temporary nature have not been reported as an asset of the fund making the advance or as a liability of the fund receiving the advance, because the fund making the temporary loan has not been determined by the College.

NOTE 5 - CHANGES IN FIXED ASSETS

A summary of changes in the fixed assets is presented as follows:

	Balance July 1, 1997	Additions	Deletion	Balance June 30, 1998
Land	$ 12,500.00	$ 0.00	$ 0.00	$ 12,500.00
Buildings	1,703,458.75			1,703,458.75
Other Structures and Improvements	9,347.94			9,347.94
Equipment	214,921.83	17,949.57		232,871.40
Motor Vehicles	15,173.58			15,173.58
Library Books	425,307.85	26,454.50	432.38	451,329.97
Construction in Progress	57,647.87	465,806.46		523,454.33
Total Fixed Assets	$ 2,438,357.82	$ 510,210.53	$ 432.38	$ 2,948,135.97

NOTE 6 - COMMITMENTS

Commitments on Construction Contracts - Commitments on construction contracts were outstanding for the following project at June 30, 1998:

Project	Amount
Multi-Purpose Building Project	$ 618,675.44

NOTE 7 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in various state-administered risk pools, purchase of commercial insurance, and self retention of certain risks.

Tort claims of up to $150,000 are self insured under the authority of the State Tort Claims Act. In addition, the State provides an additional $11,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the Department of Community Colleges directly to the insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a state administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than $5 million with commercial insurers. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other college-owned vehicles are covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the State Department of Insurance with coverage of $5,000,000 per occurrence and a $10,000 deductible. All employees are covered under a blanket policy for employee dishonesty and fraud with a private insurance company. Limits of coverage are $15,000 per occurrence and a $100 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, an internal service fund of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the board entirely from County or Institutional Funds.

NOTE 7 - RISK MANAGEMENT (CONCLUDED)

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self insured death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 8 - TRANSFERS BETWEEN FUND GROUPS

The following analysis reflects the details of the transfers between fund groups.

	Current Funds	
	Unrestricted	
	General	Proprietary
Non-Mandatory Transfers:		
From: Concessions	$ 0.00	$ (1,677.00)
To: Miscellaneous Institutional Support	1,677.00	
Net Transfers In (Out)	$ 1,677.00	$ (1,677.00)

NOTE 9 - PENSION PLANS

A. **Teachers' and State Employees' Retirement System** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System of North Carolina (System), a multiple-employer, cost-sharing, defined benefit pension which is administered by the North Carolina State Treasurer. Additional detailed information about the System is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. Employees contributed 6% of gross wages and the College contributed, for pension benefits, 7.78% of covered wages for the year ended June 30, 1998. The College has no pension plan obligations beyond the matching already paid into the System.

For the year ended June 30, 1998, the College had a total payroll of $1,603,504.47, of which $1,207,379.12 was covered under the Teachers' and State Employees' Retirement System. The College contributed $93,934.10 as matching pension costs during the year. Employee contributions totaled $72,442.75.

NOTE 9 - PENSION PLANS (CONCLUDED)

The College made one hundred percent of its annual required contributions to the retirement plan for the years ended June 30, 1998, 1997, and 1996, which were $93,934.10, $98,931.14, and $90,388.14, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans

IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits each participant to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation of service, death, disability, retirement or due to financial hardships if approved by the Board of Trustees of the Plan. All costs of administering and funding the plan are the responsibility of the Plan. No costs are incurred by the College. All amounts, property and rights derived from deferred compensation and income earned on the deferred compensation are, until paid or made available to the employee or other beneficiary, solely the property and rights of the State of North Carolina, subject only to the claims of the State's general creditors. The State believes that it is very unlikely that it will use these assets to satisfy the claims of general creditors in the future. The voluntary contributions by employees amounted to $25,511.48 for the year ended June 30, 1998.

IRC Section 401(k) Plan - All employees who are members of the Teachers' and State Employees' Retirement System of North Carolina are eligible to enroll in the Supplemental Retirement Income Plan of North Carolina in accordance with Internal Revenue Code Section 401(k). Members of the plan may receive their benefits upon retirement, disability, termination, hardship, or death. All costs of administering the plan are the responsibility of the plan's participants. Voluntary contributions by employees amounted to $7,947.00 during the year ended June 30, 1998.

IRC Sections 403(b) and 403(b)(7) Plans - All permanent employees who are at least half-time can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of educational institutions and non-profit organizations. All costs of administering and funding these plans are the responsibility of the plans' participants. Voluntary contributions by employees amounted to $1,200.00 during the year ended June 30, 1998.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in state administered programs which provide health care benefits to eligible former employees. Additional detailed information about these programs is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. The College contributes 2% of covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 1998, the College's total contribution for these health care benefits was $24,147.59. The College assumes no liability for these health care benefits provided by the programs other than its contribution.

B. **Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (the Plan). The Plan provides disability income to eligible participants. Eligible participants are employees that are members of the Teachers' and State Employees' Retirement System. Additional detailed information about the Plan is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the Plan. For the fiscal year endedJune 30, 1998, the College's total contribution to the Plan was $6,278.38. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTE 11 - UNEXPENDED COUNTY APPROPRIATIONS

Unexpended County Current Funds and County Plant Funds do not revert and are available for future use as approved by the county commissioners.

NOTE 12 - STUDENT FEES COLLECTED

The student fees reported in the accompanying financial statements represent the student fees administered by the College. Other student fees collected by the College for the year ended June 30, 1998, are not reflected on the statement of revenues, expenditures, and changes in fund equity (Exhibit B) since they are deposited into a separate fund administered by the Department of Community Colleges. These receipts are as follows:

Student Fees:		
Curriculum:		
In-State		$ 63,535.00
Non-Curriculum:		
Occupational	$ 15,286.25	
GED Fees	587.50	
Total Non-Curriculum		15,873.75
Total Student Fees		$ 79,408.75

NOTE 13 - EVENT SUBSEQUENT TO COMPLETION OF INITIAL AUDIT FIELD WORK

On March 29, 1999, the Governmental Accounting Standards Board (GASB) issued Technical Bulletin (TB) 99-1, *Disclosures about Year 2000 Issues – an amendment of Technical Bulletin 98-1*. The amendment, among other things, provides that required year 2000 disclosures may be reported as required supplementary information. Retroactive application of TB 99-1 is permitted. The College has elected to apply TB 99-1 retroactively for its 1998 financial statements, and to present the year 2000 disclosures as required supplementary information.

YEAR 2000 ISSUES

Governmental Accounting Standards Board Technical Bulletin 98-1 (TB 98-1), *Disclosures about Year 2000 Issues*, dated October 1998, states in part that (a) the year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect a government's operations as early as fiscal year 1999, and (b) problems affecting a wide range of government activities will likely result if computers and other electronic equipment that are dependent upon date-sensitive coding are not corrected. TB 98-1 further states that these problems have a potential for causing a disruption to some government operations and may temporarily increase the cost of those operations. In accordance with the requirements of TB 98-1, the College makes the following disclosures about year 2000 issues.

Description of Year 2000 Issues and the Stages of Work Necessary to Make Systems Compliant - The College's mission critical electronic data processing systems and equipment are provided by the Department of Community Colleges, but the systems can be modified by the College. The Department of Community Colleges is responsible for remediating the core operations of these systems and the College is responsible for modifications it has made to the systems.

The College has other systems not provided by the Department of Community Colleges and has recognized the urgency in dealing with the year 2000 dilemma and established a year 2000 Project Administrator during fiscal year 1997. The Project Administrator's roles and responsibilities include: conducting awareness sessions with department/technical contacts; determining the business impact of system failures; identifying date sensitive systems, electronic equipment, and equipment with embedded chips; determining contingency plans; determining source of funds; determining conversion approaches and schedules; analyzing third-party compliance; working with application analysts and programmers to test acceptance and production readiness, convert applications and equipment, and test applications; and work with a special year 2000 test resource team to perform quality assurance reviews.

The College and the Department of Community Colleges is in the process of completing an inventory of the College's electronic data processing systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the College's operations. The College and the Department of Community Colleges are subjecting those systems and equipment to the following stages of work to address year 2000 issues:

- Awareness Stage – Establishing a budget and project plan for dealing with the year 2000 issue.
- Assessment Stage – Identifying the systems and components for which year 2000 compliance work is needed.

- Remediation Stage – Making changes to systems and equipment.
- Validation/Testing Stage – Validating and testing the changes that were made during the remediation stage.

The College's and the Department of Community Colleges' year 2000 remediation work for its mission critical systems and electronic equipment is in the following stages of work as of June 30, 1998. (A – needs to be addressed, P – in process, C – completed).

Description of Mission Critical System	Awareness Stage	Assessment Stage	Remediation Stage	Validation/ Testing Stage
Bookstore Supply, Computer Labs for Student Use	C	C	C	C
Curriculum Student Registration, Literacy Application that Accesses Continuing Education Records for Tracking Students	C	C	C	P
General Ledger, Accounts Payable, Payroll and Human Resources, Student Accounts Receivable and Cash Receipts, Purchasing, Student Admission, Student Financial Aid, Continuing Education Registration, Equipment Inventory, Common System Containing Control Numbers Used to Support Various Other Applications, and the Unix Operating System	C	C	P	A
Library & Academic Resource Systems, Communications Systems, Payroll Direct Deposit	C	P	P	A
LAN & Distributive Network Systems	P	P	P	A

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until year 2000 and thereafter. As a result of this uncertainty, management cannot assure that the College is or will be year 2000 ready, that the College's and the Department of Community Colleges' remediation efforts will be successful in whole or in part, or that parties with whom the College does business will be year 2000 ready.

Outstanding Contractual Commitments Related to Year 2000 Efforts: The College had no contractual commitments outstanding at June 30, 1998, related to year 2000 remediation efforts.

STATE OF NORTH CAROLINA
Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Pamlico Community College
Grantsboro, North Carolina

We have audited the financial statements of Pamlico Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 1998, and have issued our report thereon dated January 4, 1999, except for Note 13, as to which the date is May 10, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or

operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ralph Campbell, Jr.
State Auditor

January 4, 1999, except for the first paragraph,
as to which the date is May 10, 1999

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
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Mr. Edward Renfrow	State Controller
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Mr. Thomas L. Covington	Director, Fiscal Research Division

June 4, 1999

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